

Message Text

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ACTION AF-18

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SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 SCEM-02 NSC-10

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SUBJECT: NIGERIA PRESSING US OIL COMPANIES FOR PARTICIPATION
AGREEMENTS

REF: LAGOS 7110

1. SUMMARY. NIGERIAN FEDERAL MILITARY GOVERNMENT HAS GIVEN MOBIL AND GULF UNTIL END OF SEPTEMBER TO ACCEPT NEW AGREEMENT WITH LEVEL OF PARTICIPATION AND CRUDE OIL BUY-BACK TERMS CONSIDERABLE MORE STRINGENT THAN GRANTED SHELL-BP EARLIER THIS YEAR. NIGERIAN NATIONAL OIL CORPORATION IS PLANNING TO SELL ABOUT 350,000 BARRELS PER DAY BY EARLY NEXT YEAR DIRECTLY TO FOREIGN REFINING COMPANIES. END SUMMARY.

2. THE FOLLOWING ARE NIGERIAN GOVERNMENT VIEWS ON VARIOUS ASPECTS OF THE OIL AND GAS INDUSTRY WHICH WERE OBTAINED BY EMBOFFS IN PRIVATE CONVERSATIONS AUGUST 31 WITH THE NNOC MARKETING MANAGER
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(UWAMU) AND SEPTEMBER 6 WITH THE NNOC EXPLORATION AND PRODUCTION

MANAGER (MARINHO).

3. PARTICIPATION. SEPARATE CONVERSATIONS CONTINUE TO BE HELD WITH MOBIL AND GULF OIL COMPANIES ABOUT TERMS OF THEIR FORTHCOMING PARTICIPATION AGREEMENTS WITH NNOC (WHICH WILL BE RETROACTIVE TO APRIL 1, 1973). SINCE THE 35 PERCENT AGREEMENT WAS SIGNED WITH SHELL-BP IN JUNE 1973, THE MARKET FOR CRUDE OIL HAS CHANGED SO DRAMATICALLY THAT NNOC IS FORCED TO DEMAND GREATER PARTICIPATION AND CONSIDERABLY HARDER BUY-BACK TERMS FROM MOBIL AND GULF. THE TWO COMPANIES HAVE NOT ADEQUATELY FACED UP TO THE CHANGING CIRCUMSTANCES, AND THE GOVERNMENT HAS INDICATED A DEADLINE OF SEPTEMBER 30 FOR CONCLUSION OF NEGOTIATIONS.;THE GOVERNMENT MAY ALSO SEEK TO REVISE THE SHELL-BP AGREEMENT.

4. LIBYA. MARINHO SAID SEIZURES BY LIBYA WOULD NOT NECESSARILY LEAD TO SIMILAR ACTION BY OTHER PRODUCING STATES. OPEC RECOGNIZES RIGHT OF EACH STATE TO SET DIFFERENT LEVELS OF PARTICIPATION, AND LIBYA ANNOUNCED SOME TIME AGO IT WOULD ACHIEVE 51 PERCENT IN NEAR FUTURE. IN FACT, NIGERIA WANTED TO CONCLUDE NEGOTIATIONS WITH SHELL-BP, MOBIL AND GULF BEFORE LIBYA'S 51 PERCENT MADE IT MORE DIFFICULT FOR NIGERIA TO AGREE TO MINORITY PARTICIPATION. FAR MORE IMPORTANT THAN LEVEL OF PARTICIPATION IS PRECEDENT LIBYA IS SETTING IN REGARD TO PRICES.

5. CRUDE OIL SALES. NNOC HAS ALREADY SOLD SOME CRUDE (TO TENNECO) BUT WILL NOT BE ABLE OFFER SIGNIFICANT STOCKS UNTIL EARLY NEXT YEAR WHEN AROUND 350,000 BARRELS PER DAY WILL BE AVAILABLE. THE SALES PICTURE HAS BEEN CONSIDERABLY CONFUSED BY NIGERIAN AND FOREIGN MIDDLEMEN WHO HOPE TO BUY AND SELL NIGERIAN OIL, BUT NNOC INTENDS TO DEAL ONLY WITH THE ULTIMATE REFINERS OR TRADING CORPORATIONS DIRECTLY LINKED TO REFINERS (SEE LAGOS 6800. FORM LETTERS EXPRESSING THIS POLICY ARE BEING POUCHES UNDER COVER OF SEPARATE AIRGRAM. NNOC HAS ALREADY RECEIVED OFFERS OF OVER \$5 PER BARREL, AND IS ADVISING WOULD BE PURCHASERS TO REAFFIRM OR REVISE THEIR OFFERS QUARTERLY. EMBASSY COMMENT: FIGURE OF 350,000 B/D IS HIGHEST WE HAVE HEARD YET. APPARENTLY IT INCLUDES PARTICIPATION OIL EXPECTED TO RESULT FROM GULF AND MOBIL AGREEMENTS, AND PARTICIPATION OIL FROM SHELL/BP, PHILLIPS-AGIP AND SAFRAP AGREEMENTS, AS WELL AS ROYALTY OIL.

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6. WORLD PRICES. ON EVE OF OPEC MEETING IN VIENNA, NNOC OFFICIALS SAID REALIZED PRICES NOW EXCEED POSTED PRICES, AND THIS CALLS INTO QUESTION WHOLE BASIS OF PRESENT WORLD PRICING SYSTEM. SOONER OR LATER OPEC COUNTRIES WILL THROW OUT PRESENT SYSTEM DERIVED FROM PRICE OF GULF OF MEXICO CRUDE IN 1940'S AND ADOPT ENTIRELY NEW SYSTEM. THE NIGERIANS EXPRESSED THE VIEW THAT CRUDE PRICES WOULD PROBABLY NOT STABILIZE FOR SEVERAL YEARS

TO COME.

7. LIQUID NATURAL GAS. INDECISION AT HIGHEST LEVELS OF FMG WAS IMPLIED AS REASON FOR CONTINUED DELAY IN IMPLEMENTATION OF SEVERAL PENDING LNG PROPOSALS. MARINHO USED ANALOGY OF "CRITICAL MASS" WHICH MUST ACCUMULATE BEFORE REACTION CAN TAKE PLACE. IT APPEARED THAT HE AND HIS OTHER TECHNICAL ADVISERS PLAN TO MAKE NO FURTHER RECOMMENDATION CONCERNING GAS UNTIL FMG COMES TO GRIP WITH THE PROBLEM IN ITS OWN TIME. HE DISMISSED EMBOFF'S COMMENT ABOUT COMPETITION FOR AVAILABLE CAPITAL WITH FACILE ASSERTION THAT ARAB STATES HAVE EXPRESSED WILLINGNESS TO FINANCE LNG PROJECTS IN NIGERIA.

8. DOMESTIC DISTRIBUTION. UWAMU SAID NNOC PLANS TO DISTRIBUTE PETROLEUM PRODUCTS UNDER OWN NAME IN NEAR FUTURE. THIS WOULD BE UNDERTAKEN BY PURCHASING ALL OR PART OF THE DISTRIBUTION NETWORK ON AN EXISTING MARKETER. IN A SPEECH SEPTEMBER 4 TO THE SECOND ANNUAL OIL SEMINAR FOR NIGERIAN JOURNALISTS, THE COMMISSIONER FOR MINES AND POWER SAID FMG WOULD INTRODUCE UNIFORM PETROLEUM PRODUCT PRICES THROUGHOUT THE COUNTRY IN NEAR FUTURE.

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